

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type <input type="checkbox"/> City <input type="checkbox"/> Township <input checked="" type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name VILLAGE OF STERLING	County ARENAC
Audit Date 03/31/2005	Opinion Date 05/26/2005	Date Accountant Report Submitted to State: 07/29/2005	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.


We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations

You must check the applicable box for each item below.

- ☐ yes ☒ no 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.
- ☐ yes ☒ no 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).
- ☒ yes ☐ no 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).
- ☐ yes ☒ no 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.
- ☐ yes ☒ no 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91], or P.A. 55 of 1982, as amended [MCL 38.1132]).
- ☐ yes ☒ no 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.
- ☐ yes ☒ no 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year).
- ☐ yes ☒ no 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).
- ☐ yes ☒ no 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).

We have enclosed the following:

	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	✓		
Reports on individual federal financial assistance programs (program audits).			✓
Single Audit Reports (ASLGU).			✓

Certified Public Accountant (Firm Name) STEPHENSON, GRACIK & CO., P.C.			
Street Address 325 NEWMAN STREET, PO BOX 592	City EAST TAWAS	State MI	ZIP 48730
Accountant Signature  Donald W. Brannan CPA		Digitally signed by Stephenson, Grack and Co., P.C. DN: cn=Stephenson, Grack and Co., P.C., c=US Date: 2005.02.14 14:30:02 -05'00'	



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Herman A Bertuleit, CPA

VILLAGE OF STERLING
ARENAC COUNTY, MICHIGAN

AUDITORS' REPORT
YEAR ENDED MARCH 31, 2005

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May 26, 2005

Independent Auditors' Report

Members of the Village Council
Village of Sterling
Arenac County, Michigan

We have audited the accompanying financial statements of each major fund and the remaining fund information of the Village of Sterling, Arenac County, Michigan, as of and for the year ended March 31, 2005, which collectively comprise a portion of the Village's basic financial statements required by accounting principles generally accepted in the United States of America. These financial statements are the responsibility of the Village's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

As described more fully in Note 2, management has not presented the management discussion and analysis and the government-wide financial statements to display the financial position and changes in financial position of its governmental activities. Accounting principles generally accepted in the United States of America require the presentation of the management discussion and analysis and the government-wide financial statements. The amounts that would be reported in the government-wide financial statements for the Village's governmental activities are not reasonably determinable.

In our opinion, because of the effects of the matter discussed in the preceding paragraph, the financial statements referred to in the first paragraph do not present fairly, in conformity with accounting principles generally accepted in the United States of America, the financial position of the Village of Sterling, Arenac County, Michigan, as of March 31, 2005, or the changes in its financial position or its cash flows, where applicable, for the year then ended.

In accordance with *Government Auditing Standards*, we have also issued our report dated May 26, 2005, on our consideration of the Village of Sterling's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts, grant agreements and other matters. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and should be read in conjunction with this report in considering the results of our audit.

As described in Note 2, the Village of Sterling has partially implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments*, as of March 31, 2005.

The budgetary comparison information is not a required part of the basic financial statements but is supplementary information required by accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the supplementary information. However, we did not audit the information and express no opinion on it.

Stephenson, Gracik & Co., P.C.

VILLAGE OF STERLING
Arenac County, Michigan

BALANCE SHEET
 GOVERNMENTAL FUNDS

March 31, 2005

With Comparative Totals for March 31, 2004

				Other Governmental Funds	Total Governmental Funds	
	General	Major Street Fund	Local Street Fund	Liquor Law Enforcement Fund	March 31, 2005	March 31, 2004
<u>ASSETS</u>						
Cash and cash equivalents (Note 3)	\$ 103,728	\$ 143,066	\$ 30,738	\$ 1,289	\$ 278,821	\$ 169,506
Certificates of deposit (Note 3)	57,841	11,000	39,719	0	108,560	169,881
Taxes receivable (Note 4)	5,306	0	0	0	5,306	5,358
Due from state	0	9,867	2,706	0	12,573	13,569
Due from other funds (Note 6)	0	10,868	6,234	0	17,102	26,644
Total Assets	<u>\$ 166,875</u>	<u>\$ 174,801</u>	<u>\$ 79,397</u>	<u>\$ 1,289</u>	<u>\$ 422,362</u>	<u>\$ 384,958</u>
<u>LIABILITIES AND FUND EQUITY</u>						
<u>Liabilities</u>						
Accrued liabilities	\$ 1,450	\$ 0	\$ 0	\$ 0	\$ 1,450	\$ 1,509
Due to other funds (Note 6)	29,539	100,000	0	0	129,539	131,901
Total liabilities	<u>30,989</u>	<u>100,000</u>	<u>0</u>	<u>0</u>	<u>130,989</u>	<u>133,410</u>
<u>Fund Equity</u>						
Fund Balances:						
Unreserved:						
Undesignated, reported in:						
General fund	135,886	0	0	0	135,886	130,546
Special revenue funds	0	74,801	79,397	1,289	155,487	121,002
Total fund equity	<u>135,886</u>	<u>74,801</u>	<u>79,397</u>	<u>1,289</u>	<u>291,373</u>	<u>251,548</u>
Total Liabilities and Fund Equity	<u>\$ 166,875</u>	<u>\$ 174,801</u>	<u>\$ 79,397</u>	<u>\$ 1,289</u>	<u>\$ 422,362</u>	<u>\$ 384,958</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND CHANGES IN FUND BALANCES
GOVERNMENTAL FUNDS

For the Year Ended March 31, 2005

With Comparative Totals for the Year Ended March 31, 2004

				Other Governmental Funds		
				Liquor Law Enforcement Fund	Total Governmental Funds	
	General	Major Street Fund	Local Street Fund		March 31, 2005	March 31, 2004
<u>Revenue</u>						
Current property taxes	\$ 35,624	\$ 0	\$ 0	\$ 0	\$ 35,624	\$ 33,440
State grants and revenue	48,367	55,177	15,120	0	118,664	116,197
Charges for services	24,863	0	0	0	24,863	27,690
Interest and rentals	3,159	2,056	1,491	0	6,706	6,699
Other revenue	1,538	0	3,500	0	5,038	0
Total revenue	<u>113,551</u>	<u>57,233</u>	<u>20,111</u>	<u>0</u>	<u>190,895</u>	<u>184,026</u>
<u>Expenditures</u>						
General government:						
Village council	10,870	0	0	0	10,870	19,792
President	660	0	0	0	660	960
Elections	48	0	0	0	48	952
Assessor	600	0	0	0	600	650
Clerk	6,174	0	0	0	6,174	8,737
Treasurer	7,067	0	0	0	7,067	6,333
Village hall	3,881	0	0	0	3,881	10,239
Civil service	560	0	0	0	560	0
Public works:						
Highways and streets	24,357	33,704	23,361	0	81,422	74,615
Street lighting	7,878	0	0	0	7,878	8,160
Community and economic development:						
Planning and zoning	1,000	0	0	0	1,000	400
Recreation and cultural:						
Parks and recreation	1,944	0	0	0	1,944	465
Other functions:						
Insurance	15,000	0	0	0	15,000	13,903
Employee benefits	4,677	0	0	0	4,677	5,476
Capital outlay	17,189	0	0	0	17,189	20,932
Total expenditures	<u>101,905</u>	<u>33,704</u>	<u>23,361</u>	<u>0</u>	<u>158,970</u>	<u>171,614</u>
Excess of revenue over (under) expenditures	<u>11,646</u>	<u>23,529</u>	<u>(3,250)</u>	<u>0</u>	<u>31,925</u>	<u>12,412</u>
<u>Other Financing Sources (Uses)</u>						
Sale of fixed assets	7,900	0	0	0	7,900	0
Operating transfers in	0	14,206	0	0	14,206	46,188
Operating transfers out	(14,206)	0	0	0	(14,206)	(46,188)
Total other financing sources (uses)	<u>(6,306)</u>	<u>14,206</u>	<u>0</u>	<u>0</u>	<u>7,900</u>	<u>0</u>
Excess of revenue and other sources over (under) expenditures and other uses	5,340	37,735	(3,250)	0	39,825	12,412
Fund balances - beginning of year	<u>130,546</u>	<u>37,066</u>	<u>82,647</u>	<u>1,289</u>	<u>251,548</u>	<u>239,136</u>
Fund balances - end of year	<u>\$ 135,886</u>	<u>\$ 74,801</u>	<u>\$ 79,397</u>	<u>\$ 1,289</u>	<u>\$ 291,373</u>	<u>\$ 251,548</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF NET ASSETS
 PROPRIETARY FUND
 March 31, 2005
With Comparative Totals for March 31, 2004

	Business-Type Activities - Sewer Fund	
	March 31, 2005	March 31, 2004
<u>ASSETS</u>		
Current Assets:		
Cash and cash equivalents (Note 3)	\$ 299,553	\$ 281,648
Investments (Note 3)	125,501	122,012
Receivables:		
Taxes (Note 4)	3,802	4,057
Assessments	275	582
Accounts	12,874	12,748
Due from other funds (Note 6)	<u>112,437</u>	<u>105,257</u>
Total current assets	554,442	526,304
Capital assets, net (Note 7)	<u>689,077</u>	<u>716,827</u>
Total Assets	<u>1,243,519</u>	<u>1,243,131</u>
<u>Liabilities</u>		
Due to others	<u>2,007</u>	<u>0</u>
<u>Net Assets</u>		
Invested in capital assets	689,077	716,827
Unrestricted	<u>552,435</u>	<u>526,304</u>
Total Net Assets	<u>\$ 1,241,512</u>	<u>\$ 1,243,131</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENSES AND CHANGES IN NET ASSETS
 PROPRIETARY FUND

For the Year Ended March 31, 2005

With Comparative Totals for the Year Ended March 31, 2004

	Business-Type Activities - Sewer Fund	
	March 31, 2005	March 31, 2004
<u>Operating Revenue</u>		
Charges for services	\$ 42,520	\$ 41,885
<u>Operating Expenses</u>		
Wages	6,751	6,385
Supplies	323	634
Laboratory fees	1,430	1,420
Maintenance and repair	5,426	5,701
Depreciation	27,750	27,537
Equipment rental	4,747	4,914
Utilities	3,031	3,037
Miscellaneous	1,151	732
Total operating expenses	50,609	50,360
Operating loss	(8,089)	(8,475)
<u>Non-Operating Revenue</u>		
Interest income on investments	6,426	4,779
Interest income on special assessments	44	333
Total non-operating revenue	6,470	5,112
Net loss	(1,619)	(3,363)
Net assets - beginning of year, as restated (Note 2)	1,243,131	1,246,494
Net assets - end of year	\$ 1,241,512	\$ 1,243,131

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF CASH FLOWS
 PROPRIETARY FUND
 For the Year Ended March 31, 2005
With Comparative Totals for the Year Ended March 31, 2004

	Business-Type Activities - Sewer Fund	
	March 31, 2005	March 31, 2004
<u>Cash Flows From Operating Activities</u>		
Cash received from customers	\$ 42,649	\$ 40,575
Cash payments to suppliers and employees	(22,859)	(22,823)
Net cash provided by operating activities (Note 14)	<u>19,790</u>	<u>17,752</u>
<u>Cash Flows From Noncapital Financing Activities</u>		
Special assessments received	2,314	2,502
Interest received on assessments	44	333
Cash paid to other funds	(7,180)	(6,789)
Net cash used by noncapital financing activities	<u>(4,822)</u>	<u>(3,954)</u>
<u>Cash Flows From Capital and Related Financing Activities</u>		
Acquisition and construction of capital assets	0	(6,286)
Cash received for connections	0	1,000
Net cash used by capital and related financing activities	<u>0</u>	<u>(5,286)</u>
<u>Cash Flows From Investing Activities</u>		
Proceeds received from sale of investments	0	35,035
Interest received on investments	2,937	1,483
Net cash provided by investing activities	<u>2,937</u>	<u>36,518</u>
Net increase in cash and cash equivalents	17,905	45,030
Cash and cash equivalents at beginning of year	<u>281,648</u>	<u>236,618</u>
Cash and cash equivalents at end of year	<u>\$ 299,553</u>	<u>\$ 281,648</u>

The accompanying notes to financial statements are an integral part of this statement.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The financial statements of the Village of Sterling have been prepared in accordance with accounting principles generally accepted (GAAP) in the United States of America as applied to governmental units. The following is a summary of significant accounting policies.

A. Description of Village Operations and Fund Types

The Village of Sterling operates under an elected council of nine members and provides services to its residents in many areas.

The Village's reporting entity applies all relevant Governmental Accounting Standards Board (GASB) pronouncements, except as noted in Note 2. Proprietary Funds apply Financial Accounting Standards Board (FASB) pronouncements and Accounting Principles Board (APB) opinions issued on or before November 30, 1989 unless those pronouncements conflict with or contradict GASB pronouncements, in which case, GASB prevails. All activities over which the Village exercises oversight responsibility have been included in the reporting entity. Oversight responsibility is determined by factors such as financial interdependency, selection of governing authority, designation of management, ability to significantly influence operations, and accountability for fiscal matters of the entity.

Education services are provided to citizens through the local school districts which are separate government entities and are not a part of this report.

B. Fund Accounting

The Village uses funds to maintain its financial records during the year. A fund is defined as a fiscal and accounting entity with a self-balancing set of accounts. There are two categories of funds: governmental and proprietary.

Governmental Funds

Governmental funds are those through which most governmental functions of the Village are financed. Governmental fund reporting focuses on the sources, uses and balances of current financial resources. Expendable assets are assigned to the various governmental funds according to the purpose for which they may or must be used. Current liabilities are assigned to the fund from which they will be paid. The difference between governmental fund assets and liabilities is reported as fund balance. The following are the Village's major governmental funds:

General Fund - This fund is used to account for all financial transactions except those required to be accounted for in another fund. The fund includes the general operating expenditures of the Village. Revenues are derived primarily from property taxes and state revenues.

Special Revenue Funds – These funds are used to account for specific governmental revenues (other than major capital projects) requiring separate accounting because of legal or regulatory provisions or administrative action.

The other governmental funds of the Village account for resources whose use is restricted for a particular purpose.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

B. Fund Accounting (Continued)

Proprietary Fund

Proprietary fund reporting focuses on the determination of operating income, changes in net assets, financial position, and cash flows.

The Village's enterprise funds may be used to account for any activity for which a fee is charged to external users for goods or services. The following is the Village's major enterprise fund:

Sewer Fund – This fund accounts for fees collected for sewer services provided by the Village.

C. Basis of Presentation

The Village's basic financial statements consist of fund financial statements which provide a detailed level of financial information.

Fund Financial Statements

During the year, the Village segregates transactions related to certain Village functions or activities in separate funds in order to aid financial management and to demonstrate legal compliance. Fund financial statements are designed to present financial information of the Village at a detailed level. The focus of governmental and proprietary fund financial statements is on major funds. Each major fund is presented in a separate column. Nonmajor funds are aggregated and presented in a single column. All of the Village's funds are considered major funds except for the Liquor Law Enforcement Fund.

All governmental funds are accounted for using the modified accrual basis of accounting and the current financial resources measurement focus. With this measurement focus, only current assets and current liabilities are generally included on the balance sheet. The statement of revenue, expenditures and changes in fund balances reflects the sources (i.e., revenues and other financial sources) and uses (i.e., expenditures and other financial uses) of current financial resources.

All enterprises funds are accounted for using a flow of economic resources measurement focus. All assets and liabilities associated with the operation of these funds are included on the statement of net assets. The statement of changes in revenue, expenses, and changes in fund net assets presents increases (i.e. revenues) and decreases (i.e., expenses) in total net assets. The statement of cash flows reflects how the Village finances and meets the cash flow needs of its enterprise activities.

D. Basis of Accounting

Basis of accounting determines when transactions are recorded in the financial records and reported on the financial statements. Governmental funds use the modified accrual basis of accounting and proprietary funds use the accrual basis of accounting. Differences in the accrual and modified accrual basis of accounting arise in the recognition of revenue, the recording of deferred revenue, and in the presentation of expenses versus expenditures.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

D. Basis of Accounting (Continued)

Revenues – Exchange and Non-exchange Transactions:

Revenues resulting from exchange transactions, in which each party gives and receives essentially equal value, is recorded on the accrual basis when the exchange takes place. On the modified accrual basis, revenues are recorded in the fiscal year in which the resources are measurable and become available. Available, means that the resources will be collected within the current fiscal year or are expected to be collected soon enough thereafter to be used to pay liabilities of the current fiscal year. For the Village, available means expected to be received within 60 days of the fiscal year-end.

Nonexchange transactions, in which the Village receives value without directly giving equal value in return, include property taxes, grants, entitlements and donations. On the accrual basis, revenue from property taxes is recognized in the fiscal year for which the taxes are levied. Revenue from grants, entitlements and donations is recognized in the fiscal year in which all eligibility requirements have been satisfied. Eligibility requirements include timing requirements, which specify the year when the resources are required to be used or the fiscal year when use is first permitted, matching requirements, in which the Village must provide local resources to be used for a specified purpose, and expenditure requirements, in which the resources are provided to the Village on a reimbursement basis. On the modified accrual basis, revenues from nonexchange transactions must also be available before they can be recognized.

Under the modified accrual basis, the following revenue sources are considered both measurable and available at year end: charges for services, fines and forfeitures, state-levied locally shared taxes (including sales tax), grants, interest, rent and various other items.

Expenses/Expenditures

On the accrual basis, expenses are recognized at the time they are incurred.

The measurement focus of governmental fund accounting is on decreases in net financial resources (expenditures) rather than expenses. Expenditures are generally recognized in the accounting period in which the related fund liability is incurred, if measurable. Allocations of cost, such as depreciation and amortization, are not recognized in governmental funds.

E. Use of Estimates

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires the use of estimates and assumptions regarding certain types of assets, liabilities, revenues and expenses. Such estimates primarily relate to unsettled transactions and events as of the date of the financial statements. Accordingly, upon settlement, actual results may differ from estimated amounts.

F. Cash and Cash Equivalents

For presentation on the financial statements, investments in cash management pools and investments with an original maturity of three months or less at the time they are purchased by the Village are considered to be cash equivalents. Investments with an initial maturity of more than three months are reported as investments.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

G. Budgets and Budgetary Accounting

The Village normally follows these procedures in establishing the budgetary data reflected in the financial statements.

1. The Village President submits to the Village Council a proposed operating budget which includes proposed expenditures and the means of financing them.
2. A public hearing is conducted to obtain taxpayer comments.
3. Prior to April 1, the budget is legally enacted through passage of an ordinance.

All budget appropriations lapse at year-end. Budgetary amounts reported herein are as originally adopted, or as amended by the Village Council.

Budgets shown in the financial statements are adopted on a basis consistent with generally accepted accounting principles, and consist only of those amounts contained in the formal budget approved and amended by the Village Council.

H. Interfund Activity

Exchange transactions between funds are reported as revenues in the seller funds and as expenditures/expenses in the purchaser funds. Flows of cash or goods from one fund to another without a requirement for repayment are reported as interfund transfers. Interfund transfers are reported as other financing sources/uses in governmental funds. Repayments from funds responsible for particular expenditures/expenses to the funds that initially paid for them are not presented on the financial statements.

I. Statement of Cash Flows

For purposes of the statement of cash flows, all highly liquid investments and certificates of deposit with a maturity of three months or less when purchased are considered to be cash equivalents.

J. Net Assets

Net assets represent the difference between assets and liabilities. Net assets invested in capital assets consists of capital assets net of accumulated depreciation. Net assets are reported as restricted when there are limitations imposed on their use either through the enabling legislation adopted by the Village or through external restrictions imposed by creditors, grantors or laws or regulations of other governments. The Village's policy is to first apply restricted resources when an expense is incurred for purposes for which both restricted and unrestricted net assets are available.

K. Operating Revenues and Expenses

Operating revenues are those revenues that are generated directly from the primary activity of the enterprise fund. For the Village, these revenues are charges for services for sewer usage. Operating expenses are the necessary costs incurred to provide the service that is the primary activity of the fund. Revenues and expenses not meeting these definitions are reported as nonoperating.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 1 - SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (CONTINUED)

L. Extraordinary and Special Items

Extraordinary items are transactions or events that are both unusual in nature and infrequent in occurrence. Special items are transactions or events that are within the control of the Council and that are either unusual in nature or infrequent in occurrence. Neither type of transaction occurred during the current year.

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS

A. Change in Accounting Principles

For 2005, the Village has implemented, with exceptions as noted below, Governmental Accounting Standards Board (GASB) Statement Number 33 "Accounting and Financial Reporting for Non-Exchange Transactions," as amended by Statement Number 36 "Recipient Reporting for Certain Shared Non-Exchange Revenue," which establishes standards for recording non-exchange transactions on the modified accrual and accrual basis of accounting; GASB Statement No. 34, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments"; GASB Statement No. 37, "Basic Financial Statements and Management's Discussion and Analysis for State and Local Governments: Omnibus"; GASB Statement No. 38, "Certain Financial Statement Note Disclosures"; and GASB Interpretation No. 6, "Recognition and Measurement of Certain Liabilities and Expenditures in Governmental Fund Financial Statements".

GASB Statement No. 34 creates new basic financial statements for reporting on the Village's financial activities. The financial statements include government-wide financial statements prepared on the accrual basis of accounting and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are aggregated and presented in a single column. Fiduciary funds are reported by type. The government-wide financial statements split the programs between governmental activities and business-type activities.

The Village did not adopt GASB 34 and GASB 37 in its entirety, as permitted by the Local Audit and Finance Division of the Treasury Department of the State of Michigan (State of Michigan), because the Village believes that the cost of implementing the statements may exceed the benefit of the additional information. However, because management has not recorded certain fixed assets and general infrastructure assets in the governmental activities and because the amount by which this departure would affect the assets, net assets, and expenses of the governmental activities is not reasonably determinable, an adverse opinion was issued on the financial statements taken as a whole.

GASB Statement No. 37 makes certain clarifications regarding escheat property and modifies several provisions of GASB Statement No. 34. GASB Statement No. 38 modifies, establishes, and rescinds certain financial statement disclosure requirements.

GASB Interpretation No. 6 clarifies the application of standards for modified accrual recognition of certain liabilities and expenditures in areas where differences have arisen, or potentially could arise, in interpretation and practice.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 2 - CHANGE IN ACCOUNTING PRINCIPLES AND RESTATEMENT OF NET ASSETS (CONTINUED)

B. Restatement of Fund Equity

The restatement due to the implementation of the above statements and interpretation had the following effects on fund equity of the major Enterprise fund of the Village as it was previously reported.

	<u>Sewer Fund</u>
Retained Earnings March 31, 2003	\$ 11,204
Restatement of contributed capital in accordance with GASB Statement No. 33	<u>1,235,290</u>
Restated Net Assets – March 31, 2003	<u>\$ 1,246,494</u>

NOTE 3 - DEPOSITS AND INVESTMENTS

At year-end, the Village's deposits and investments were reported in the basic financial statements in the following categories:

	<u>Governmental Activities</u>	<u>Business-Type Activities</u>	<u>Total Primary Government</u>
Cash and Cash Equivalents	\$ 278,821	\$ 299,553	\$ 578,374
Investments	<u>108,560</u>	<u>125,501</u>	<u>234,061</u>
	<u>\$ 387,381</u>	<u>\$ 425,054</u>	<u>\$ 812,435</u>

The breakdown between deposits and investments is as follows:

	<u>Primary Government</u>
Bank Deposits (checking accounts and certificates of deposit)	\$ 277,493
Investments in financial institution pooled funds	<u>534,942</u>
Total	<u>\$ 812,435</u>

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Deposits:

Deposits are carried at cost. Deposits of the Village are held at various financial institutions in the name of the Village. At March 31, 2005, the carrying amounts of the Village's deposits were classified as to risk as follows:

	<u>Carrying Amount</u>	<u>Bank Balance</u>
Insured (FDIC)	\$ 263,342	\$ 263,910
Uninsured - uncollateralized	<u>14,151</u>	<u>14,151</u>
	<u>\$ 277,493</u>	<u>\$ 278,061</u>

Investments:

The Village Council has adopted an investment policy in accordance with Act 196, PA 1997 which authorizes the Village to deposit and invest in the following:

- * Accounts of federally insured banks, credit unions and savings and loan associations
- * Bonds and other direct obligations of the United States or an agency or instrumentality of the United States
- * United States government or federal agency obligation repurchase agreements
- * Banker's acceptances of United States banks
- * Commercial paper rated within the two highest classifications by not less than two standard rating services which matures not more than 270 days after the date of purchase
- * Mutual funds registered under the Investment Company Act of 1940, Title I of Chapter 686, 54 Stat. 789 15 U.S.C. 80a-1 to 80a-3 and 80a-4 to 80a-64 with the authority to purchase only investment vehicles that are legal for direct investment by a public corporation

Michigan law requires that public funds may not be deposited in financial institutions that do not maintain an office in Michigan. The Village's deposits and investments are in accordance with statutory authority.

The Village's investments are categorized to give an indication of the level of risk assumed by the Village at March 31, 2005. The categories are described as follows:

Category 1 - Insured or registered, with securities held by the entity or its agent in the entity's name.

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the entity's name.

Category 3 - Uninsured and unregistered, with securities held by the counterparty, or its trust department or agent but not in the entity's name.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 3 - DEPOSITS AND INVESTMENTS (CONTINUED)

Investments: (Continued)

All investments at March 31, 2005 consisted of the following which are not required to be categorized.

	<u>Carrying Amount</u>	<u>Market Value</u>
<u>Nonrisk-Categorized</u>		
Financial institution pooled funds	<u>\$ 534,942</u>	<u>\$ 534,942</u>

NOTE 4 - PROPERTY TAXES RECEIVABLE

The delinquent real property taxes of the Village of Sterling are purchased by the County of Arenac. The County intends to sell tax notes, the proceeds of which will be used to pay the Village for these property taxes. These taxes have been recorded as revenue for the current year.

NOTE 5 - UNEMPLOYMENT COMPENSATION

The Village is subject to the Michigan Employment Security Act and has elected the reimbursement method of financing. Under this method, the Village must reimburse the Employment Agency for all benefits charged against the Village. No liabilities have been incurred as of March 31, 2005.

NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY

The amounts of interfund receivables and payables as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Interfund Payable</u>
Major Governmental Funds:		
General Fund	\$ 0	\$ 29,539
Major Street Fund	10,868	100,000
Local Street Fund	<u>6,234</u>	<u>0</u>
Total Major Governmental Funds	17,102	129,539
Major Proprietary Fund:		
Sewer Fund	<u>112,437</u>	<u>0</u>
	<u>\$ 129,539</u>	<u>\$ 129,539</u>

VILLAGE OF STERLING
Arenac County, MichiganNOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005NOTE 6 - INTERFUND RECEIVABLES AND PAYABLES WITHIN THE REPORTING ENTITY (CONTINUED)

The amounts of interfund receivables and payables for the primary government as of March 31, 2005 were as follows:

<u>Fund</u>	<u>Interfund Receivable</u>	<u>Fund</u>	<u>Interfund Payable</u>
Major Street Fund	\$ 10,868	General Fund	\$ 10,868
Local Street Fund	6,234	General Fund	6,234
Sewer Fund	12,437	General Fund	12,437
Sewer Fund	<u>100,000</u>	Major Street Fund	<u>100,000</u>
Totals	<u>\$ 129,539</u>		<u>\$ 129,539</u>

NOTE 7 - PROPRIETARY FUNDS – CAPITAL ASSETS

A summary of proprietary fund type fixed assets at March 31, 2005 follows:

	<u>Balance April 1, 2004</u>	<u>Additions</u>	<u>Deletions</u>	<u>Balance March 31, 2005</u>
Capital Assets Not Being Depreciated:				
Land	<u>\$ 5,408</u>	<u>\$ 0</u>	<u>\$ 0</u>	<u>\$ 5,408</u>
Capital Assets Being Depreciated:				
Machinery and Equipment	1,369,007	0	0	1,369,007
Less: Accumulated Depreciation	<u>(657,588)</u>	<u>(27,750)</u>	<u>0</u>	<u>(685,338)</u>
Net Capital Assets Being Depreciated	<u>711,419</u>	<u>(27,750)</u>	<u>0</u>	<u>683,669</u>
Proprietary Fund Total Capital Assets – Net of Depreciation	<u>\$ 716,827</u>	<u>\$ (27,750)</u>	<u>\$ 0</u>	<u>\$ 689,077</u>

The proprietary fund's fixed assets are stated at cost. Depreciation is calculated using the straight-line basis at rates ranging from 2% to 10% per year.

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS

P.A. 621 of 1978, Section 18(1), as amended, provides that a local unit shall not incur expenditures in excess of the amount appropriated.

In the body of the financial statements, the Village's actual expenditures and budgeted expenditures for the budgetary funds have been shown on a functional basis. The approved budgets of the Village for these budgetary funds were adopted to the functional level.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 8 - EXCESS OF EXPENDITURES OVER APPROPRIATIONS IN BUDGETARY FUNDS (CONTINUED)

During the year ended March 31, 2005, the Village incurred expenditures in certain budgetary funds which were in excess of the amounts appropriated as follows:

<u>Fund/Function</u>	<u>Total Appropriations</u>	<u>Amount of Expenditures</u>	<u>Budget Variance</u>
General Fund:			
Other Functions:			
Employee benefits	\$ 4,300	\$ 4,677	\$ 377
Operating transfers out	\$ 13,500	\$ 14,206	\$ 706

NOTE 9 - COMPENSATED ABSENCES

The Village of Sterling had no liability for compensated absences at March 31, 2005.

NOTE 10 - PROPERTY TAXES

Property taxes include amounts levied against all real property and tangible personal property located in the Village. Properties are assessed as of December 31 and the related property taxes become a lien on December 1 of the following year. These taxes are due on February 14 with the final collection date of February 28 before they are added to the County tax rolls. For the current year, the taxable value for properties located within the Village was \$7,103,146. The tax rates were 3.0000 mills for operations and 2.0000 mills for roads.

NOTE 11 - OPERATING TRANSFERS

During the year ended March 31, 2005, the following transfers were made:

<u>Description</u>	<u>Operating Transfers In</u>	<u>Operating Transfers Out</u>
<u>Major Funds</u>		
Major Governmental Funds:		
General Fund	\$ 14,206	\$ 0
Major Street Fund	<u>0</u>	<u>14,206</u>
Total Major Funds	<u>\$ 14,206</u>	<u>\$ 14,206</u>

During the year ended March 31, 2005, the following individual fund transfers were made:

<u>Fund</u>	<u>Operating Transfers In</u>	<u>Fund</u>	<u>Operating Transfers Out</u>
General Fund	<u>\$ 14,206</u>	Major Street Fund	<u>\$ 14,206</u>

Transfers are used to move revenues from the fund that statute or budget requires to collect them to the fund that statute or budget requires to expend them.

VILLAGE OF STERLING
Arenac County, Michigan

NOTES TO FINANCIAL STATEMENTS
For the Year Ended March 31, 2005

NOTE 12 - SEGMENT INFORMATION OF ENTERPRISE FUND

The Village operates one enterprise fund which provides sewer services. Segment information for the year ended March 31, 2005 is as follows:

Operating revenue	\$ 42,520
Depreciation expense	\$ 27,750
Operating loss	\$ (8,089)
Net loss	\$ (1,619)
Net working capital	\$ 452,160
Total equity	\$ 1,241,512

NOTE 13 - RISK MANAGEMENT

The Village is exposed to various risks of loss related to torts; theft of, damage to, and destruction of assets; errors and omissions; injuries to employees and natural disasters. The Village continues to carry commercial insurance for risks of loss. Settled claims for the commercial insurance have not exceeded the amount of the insurance coverage in any of the past three years.

NOTE 14 - RECONCILIATION OF OPERATING LOSS TO NET CASH PROVIDED BY OPERATING ACTIVITIES

Operating loss	\$ (8,089)
Adjustments to reconcile operating loss to net cash provided by operating activities:	
Depreciation	27,750
Changes in assets:	
Decrease in accounts receivable	<u>129</u>
Net cash provided by operating activities	<u>\$ 19,790</u>

NOTE 15 - COMPARATIVE DATA

Comparative totals for the prior year have been presented in Exhibits A through E, in order to provide an understanding of changes in the Village's financial position and operations. Some prior year balances have been reclassified to conform with the current year presentation.

REQUIRED SUPPLEMENTARY INFORMATION

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
GENERAL FUND

For the Year Ended March 31, 2005

	Original Budget	Final Amended Budget	Actual	Variance - Favorable (Unfavorable)
<u>Revenue</u>				
Current property taxes	\$ 33,500	\$ 33,500	\$ 35,624	\$ 2,124
State grants and revenue	50,000	50,000	48,367	(1,633)
Charges for services	20,000	20,000	24,863	4,863
Interest and rentals	5,300	5,300	3,159	(2,141)
Other revenue	30,000	30,000	1,538	(28,462)
Total revenue	<u>138,800</u>	<u>138,800</u>	<u>113,551</u>	<u>(25,249)</u>
<u>Expenditures</u>				
General government:				
Village council	18,160	18,160	10,870	7,290
President	1,440	1,440	660	780
Elections	1,250	1,250	48	1,202
Assessor	600	600	600	0
Clerk	7,200	7,200	6,174	1,026
Treasurer	7,300	7,300	7,067	233
Village hall	8,700	8,700	3,881	4,819
Civil service	1,480	1,480	560	920
Public works:				
Highways and streets	48,000	48,000	24,357	23,643
Street lighting	8,500	8,500	7,878	622
Community and economic development:				
Planning and zoning	3,500	3,500	1,000	2,500
Recreation and cultural:				
Parks and recreation	4,600	4,600	1,944	2,656
Other functions:				
Insurance	15,000	15,000	15,000	0
Employee benefits	4,300	4,300	4,677	(377)
Capital outlay	20,000	20,000	17,189	2,811
Total expenditures	<u>150,030</u>	<u>150,030</u>	<u>101,905</u>	<u>48,125</u>
Excess of revenue over (under) expenditures	<u>(11,230)</u>	<u>(11,230)</u>	<u>11,646</u>	<u>22,876</u>
<u>Other Financing Sources (Uses)</u>				
Sale of fixed assets	0	0	7,900	7,900
Operating transfers out	(13,500)	(13,500)	(14,206)	(706)
Total other financing sources (uses)	<u>(13,500)</u>	<u>(13,500)</u>	<u>(6,306)</u>	<u>7,194</u>
Excess of revenue and other sources over (under) expenditures and other uses	<u>(24,730)</u>	<u>(24,730)</u>	<u>5,340</u>	<u>30,070</u>
Fund balances - beginning of year	<u>130,546</u>	<u>130,546</u>	<u>130,546</u>	<u>0</u>
Fund balances - end of year	<u>\$ 105,816</u>	<u>\$ 105,816</u>	<u>\$ 135,886</u>	<u>\$ 30,070</u>

VILLAGE OF STERLING
Arenac County, Michigan

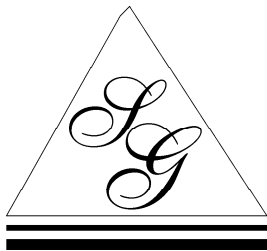
STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 MAJOR STREET FUND
For the Year Ended March 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
State grants and revenue	\$ 47,000	\$ 47,000	\$ 55,177	\$ 8,177
Interest and rentals	<u>3,000</u>	<u>3,000</u>	<u>2,056</u>	<u>(944)</u>
Total revenue	50,000	50,000	57,233	7,233
<u>Expenditures</u>				
Public works:				
Highways and streets	<u>45,500</u>	<u>45,500</u>	<u>33,704</u>	<u>11,796</u>
Excess of revenue over expenditures	4,500	4,500	23,529	19,029
<u>Other Financing Sources</u>				
Operating transfers in	<u>13,500</u>	<u>13,500</u>	<u>14,206</u>	<u>706</u>
Excess of revenue and other sources over expenditures	18,000	18,000	37,735	19,735
Fund balances - beginning of year	<u>37,066</u>	<u>37,066</u>	<u>37,066</u>	<u>0</u>
Fund balances - end of year	<u>\$ 55,066</u>	<u>\$ 55,066</u>	<u>\$ 74,801</u>	<u>\$ 19,735</u>

VILLAGE OF STERLING
Arenac County, Michigan

STATEMENT OF REVENUE, EXPENDITURES AND
 CHANGES IN FUND BALANCES - BUDGET AND ACTUAL
 LOCAL STREET FUND
For the Year Ended March 31, 2005

	<u>Original Budget</u>	<u>Final Amended Budget</u>	<u>Actual</u>	<u>Variance - Favorable (Unfavorable)</u>
<u>Revenue</u>				
State grants and revenue	\$ 11,000	\$ 11,000	\$ 15,120	\$ 4,120
Interest and rentals	1,500	1,500	1,491	(9)
Other revenue	<u>0</u>	<u>0</u>	<u>3,500</u>	<u>3,500</u>
Total revenue	12,500	12,500	20,111	7,611
<u>Expenditures</u>				
Public works:				
Highways and streets	<u>26,000</u>	<u>26,000</u>	<u>23,361</u>	<u>2,639</u>
Excess of revenue over (under) expenditures	(13,500)	(13,500)	(3,250)	10,250
Fund balances - beginning of year	<u>82,647</u>	<u>82,647</u>	<u>82,647</u>	<u>0</u>
Fund balances - end of year	<u>\$ 69,147</u>	<u>\$ 69,147</u>	<u>\$ 79,397</u>	<u>\$ 10,250</u>



Stephenson Gracik & Co., P.C.

Certified Public Accountants & Consultants

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Donald W. Brannan, CPA
Kyle E Troyer, CPA

Herman A Bertuleit, CPA

May 26, 2005

REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

Members of the Village Council
Village of Sterling
Arenac County, Michigan

We have audited the financial statements of each major fund and the remaining fund information of the Village of Sterling as of and for the year ended March 31, 2005, which collectively comprise a portion of the Village's basic financial statements and have issued our report thereon dated May 26, 2005. The report on the governmental activities was adverse because the Management Discussion and Analysis and Government-Wide Financial Statements were not included in the basic financial statements. Except as discussed in the preceding sentence, we conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards*, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the Village of Sterling's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinions on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted one matter involving the internal control over financial reporting and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the Village of Sterling's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. The reportable condition is described below:

Cash Receipts System

During our audit fieldwork we noted that the Village does not use prenumbered cash receipts to record cash received. We recommend that the Village obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Village.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the general purpose financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, we believe the reportable condition described above to be a material weakness.

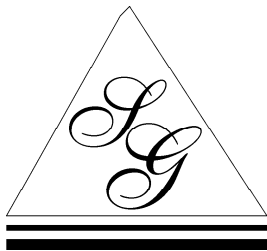
Compliance and Other Matters

As part of obtaining reasonable assurance about whether the Village of Sterling's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*. However, we noted certain other matters of noncompliance that we have reported to management of the Village in a separate letter dated May 26, 2005.

Members of the Village Council
Village of Sterling
May 26, 2005
Page Two

This report is intended solely for the information and use of management, Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grault & Co., P.C.



Stephenson Gracik & Co., P.C.

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Herman A Bertuleit, CPA

May 26, 2005

Members of the Village Council
Village of Sterling
Arenac, County, Michigan

Dear Council Members:

We have audited the financial statements of the Village of Sterling for the year ended March 31, 2005, and have issued our report thereon dated May 26, 2005. Professional standards require that we provide you with the following information related to our audit.

Our Responsibility Under U.S. Generally Accepted Auditing Standards and Government Auditing Standards

As stated in our engagement letter dated April 9, 2003, our responsibility, as described by professional standards, is to plan and perform our audit to obtain reasonable, but not absolute, assurance about whether the financial statements are free of material misstatement and are fairly presented in accordance with U.S. generally accepted accounting standards. Because an audit is designed to provide reasonable, but not absolute assurance and because we did not perform a detailed examination of all transactions, there is a risk that material misstatements may exist and not be detected by us.

As part of our audit, we considered the internal control of the Village of Sterling. Such considerations were solely for the purpose of determining our audit procedures and not to provide any assurance concerning such internal control.

As part of obtaining reasonable assurance about whether the financial statements are free of material misstatement, we performed tests of the Village of Sterling's compliance with certain provisions of laws, regulations, contracts, and grants. However, the objective of our tests was not to provide an opinion on compliance with such provisions.

Significant Accounting Policies

Management has the responsibility for selection and use of appropriate accounting policies. In accordance with the terms of our engagement letter, we will advise management about the appropriateness of accounting policies and their application. The significant accounting policies used by the Village of Sterling are described in Note 1 to the financial statements. As described in Note 2 to the financial statements, the Village changed accounting policies as a result of adopting, with certain exceptions, Statement of Governmental Accounting Standards (GASB Statements) No. 33, 34, 36, 37 and 38, in the year ended March 31, 2005. We noted no transactions entered into by the Village of Sterling during the year that were both significant and unusual, and of which, under professional standards, we are required to inform you, or transactions for which there is a lack of authoritative guidance or consensus.

Accounting Estimates

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

Audit Adjustments

For purposes of this letter, professional standards define an audit adjustment as a proposed correction of the financial statements that, in our judgment, may not have been detected except through our auditing procedures. An audit adjustment may or may not indicate matters that could have a significant effect on the Village of Sterling's financial reporting process (that is, cause future financial statements to be materially misstated). In our judgment, none of the adjustments we proposed, whether recorded or unrecorded by the Village of Sterling, either individually or in the aggregate, indicate matters that could have a significant effect on the Village of Sterling's financial reporting process.

Disagreements with Management

For purposes of this letter, professional standards define a disagreement with management as a matter, whether or not resolved to our satisfaction, concerning a financial accounting, reporting, or auditing matter that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

Consultations with Other Independent Accountants

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the governmental unit's financial statements or a determination of the type of auditors' opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

Issues Discussed Prior to Retention of Independent Auditors

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the Village of Sterling's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

Difficulties Encountered in Performing the Audit

We encountered no significant difficulties in dealing with management in performing our audit.

Additional Information

As a result of our study and evaluation of the internal controls as described in the third paragraph and the results of our tests of compliance, as described in the fourth paragraph, certain matters came to our attention upon which we would like to comment and offer the following recommendations:

Cash Receipts System

During our audit fieldwork we noted that the Village does not use prenumbered cash receipts to record cash received. We recommend that the Village obtain prenumbered receipt books and issue a receipt for each cash transaction received by the Village.

Budget Control

The Village incurred expenditures in the General Fund in excess of appropriated amounts. We recommend that the Village Council review budgets on a periodic basis and amend as needed to be in compliance with the Uniform Budgeting and Accounting Act.

We wish to express our appreciation for the cooperation and courtesies extended our staff by the employees of the Village.

This information is intended solely for the use of management, Village Council and the Michigan Department of Treasury and is not intended to be and should not be used by anyone other than these specified parties.

Stephenson, Grunh & Co., P.C.